

Transmittal Letter

To: Don Stapley, Chairman, District 2
Fulton Brock, District 1
Andrew Kunasek, District 3
Max Wilson, District 4
Mary Rose Wilcox, District 5

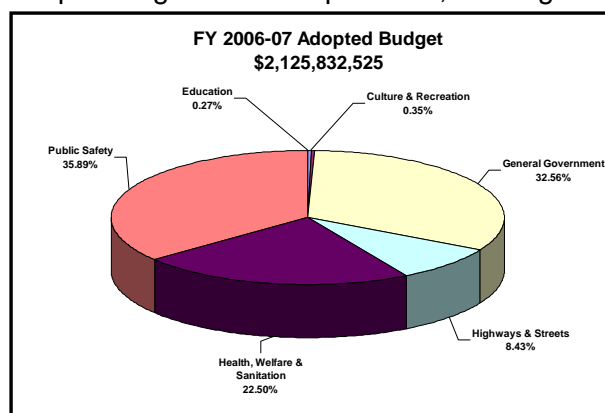
The 2006-07 budget includes some of the strongest revenue projections that have occurred in Maricopa County for over a decade. The extraordinary growth in population has helped drive this strong revenue surge; however, a tremendous demand for services is also occurring as a result of having over 110,000 new residents move into the valley each year. We are the fourth and on the way to being the third largest county in the nation with an estimated population of 3.6 million residents now.

The recommended budget is \$2.128 billion, which is a 5.4% increase over the 2005-06 revised budget. The increase is primarily due to enhancements in employee compensation and benefit packages, growth in the justice system and large, increased contributions paid to the State of Arizona for mandated health care costs. This compares to an increase of population and inflation of 5.4%.

Each year, the Board of Supervisors adopts the budget guidelines, which provide policy direction for County departments and the Office of Management and Budget. These instructions are followed when developing the recommended budget. The guidelines for the 2006-07 budget abide by similar themes to past years by directing departments to concentrate on justice issues, mandated public health programs, and employee compensation and benefits. The Board of Supervisors also added an important element by voluntarily limiting the growth in our secondary property tax levies. The Board has decided to self-impose a 2% limit on taxes levied on existing properties, parallel to the constitutional limits that exist on the primary property tax levy. This will ensure that the growth in secondary levies are limited appropriately, despite the large assessment increase that occurred on the property tax roles this year.

Expenditure Uses

Maricopa County is not a chartered county providing for elements of home rule; therefore, most of our mission is set in statute by the State of Arizona. We are, essentially, a service delivery arm of state government. Our organization is very diverse and includes public safety and justice issues, public and environmental health, infrastructure such as regional planning and transportation, and general government functions, which include elections, recordings, property assessments, treasury and tax collection for local government. Again, our programs and activities are largely based on mandates from the State of Arizona. Maricopa County provides services that are traditionally government functions, but also tries to be innovative in its approach to solving community issues. Our human services campus, which has been developed through partnerships with non-profits and other governmental entities, is dealing with the homeless population in Maricopa County. This campus provides compassion, but also attempts to change the status



of this population by giving them skills to reshape their lives. This budget provides for a continuation of innovative and entrepreneurial solutions to problems. It includes funding for new crime prevention programs, expanded public health capacity and funding for environmental issues. A graphical illustration of our expenditures is shown above. Mandated health care and public safety make up nearly 60% of our expenditures.

Econometric and Demographic Trends

Maricopa County continues to be one of the fastest growing regions in the United States. The County is growing at a rate of 3.3% per year. The long-range growth for this community is expected to be around 3.0%, while the national average is closer to 1.0%. Maricopa County also far exceeds the national employment growth rate. We are growing at 6.4% as compared to 1.5%, the average for the rest of the nation. This fuels our strong economy, but also pushes market-based salaries higher as we compete for a trained and skilled workforce.

Growth in our revenue base continues to be exceptional. In 2005-06, our forecast shows a projected growth in State Shared Sales Taxes of 15.1%. For fiscal year 2006-07, that growth will slow to 7.3% but will still be quite strong. State Shared Vehicle License Taxes are growing in the current year at 11.4%, and are budgeted at a lower growth rate of 5.4% for next fiscal year. While the strong revenue base is good news, economists state that much of the revenue growth is considered transitory. Our current revenue growth is based on large capital gains by consumers, as well as construction sales taxes. These conditions will slow beginning in the next fiscal year. Caution is recommended as revenue growth is predicted to drop back to more traditional levels of 4.5–6.3% in coming years. It is important that our baseline expenditure growth stay consistent with growth patterns of our traditional revenues.

Property Taxes

Property tax rates in Maricopa County are the lowest of the large urban counties in Arizona and are at their lowest rate in 27 years. Our proposed overall county-controlled property tax rate is \$1.4348 per \$100 of assessed valuation. This is a drop in the overall tax rate of \$.0263. The savings on a \$250,000 home is estimated to be \$6.57. The County's primary property tax rate is recommended to be \$1.1794, which is a \$.0177 reduction.

A major advantage for the taxpayers of Maricopa County is the fact that we do not have a secondary debt service property tax levy. For government jurisdictions of our size, this is fairly unprecedented. We do not have any outstanding general obligation bonds, and the business convenience debt we do have is minimal. This has occurred through careful planning and fiscal discipline. The Board of Supervisor's has directed staff to pay cash for capital improvements whenever possible, and if debt financing is necessary, to do so within the capacity of the primary property tax levy. At this point Maricopa County could ask the voters for up to \$5.56 billion in general obligation bonds. This is the legal debt limit that exists for our County at this time. The Board's conservative approach to funding capital and infrastructure has saved Maricopa County taxpayers tens of millions in interest and bond issuance costs.

Managing For Results

Maricopa County is nationally renowned for its Managing for Results program. We received an A- in this category from *Governing* Magazine and Syracuse University during the Government Performance Project review of counties in 2002. We are continually working to improve our program and have taken major steps to develop a very comprehensive and usable strategic plan.

In April 2005, the Board of Supervisors held a two-day strategic planning session. It was a successful review and assessment by Supervisors and County leaders of issues, challenges and opportunities that the County faces as it seeks to balance fiscal restraint with ever-growing demand for public services. As a result of those concentrated sessions, revised mission and vision statements were adopted and a new set of strategic priorities were developed. They are listed below:

Mission Statement:

To provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

Vision Statement:

Citizens serving citizens by working collaboratively, innovatively, efficiently, and effectively. We will be responsive to our customers while being fiscally prudent.

Strategic Priorities:

- Ensure safe communities and a streamlined, integrated justice system.
- Promote and protect the public health of the community.
- Provide regional leadership in critical public policy areas.
- Carefully plan and manage land use in Maricopa County to promote sustainable development and to preserve and strengthen our environment.
- Continue to exercise sound financial management and build the County's fiscal strength while minimizing the property tax burden.
- Maintain a quality workforce and equip County employees with the tools, skills, workspace and resources they need to do their jobs safely and well.
- Continue to improve the County's public image by increasing citizen satisfaction with the quality and cost-effectiveness of services provided by the County.

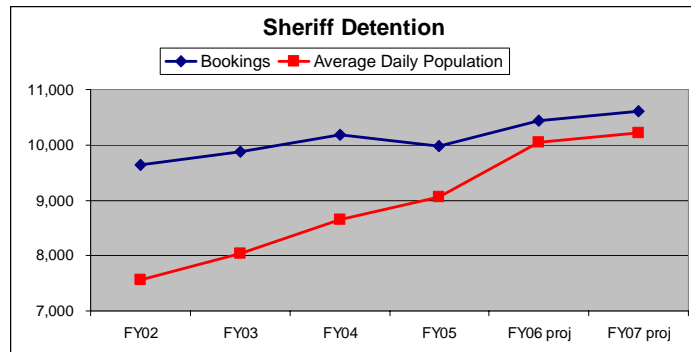
The Board of Supervisors formally adopted the new strategic plan in June 2005. County departments then developed specific objectives and action plans for carrying out the Board's plan. The County's progress in accomplishing the new strategic plan is covered in a mid-year and annual performance report available at www.maricopa.gov/mfr.

For the second year in a row, departments were required to submit additional information with their budget submissions as part of our Budgeting for Results initiative, which is a component of Managing for Results. This initiative ties the budgeting process to results-based fiscal decisions. Enhancements to the process this year included further development of our activity-based costing models and process, including alignment of revenues to activities. This will significantly improve our future fee analysis in specific programs. In a number of departments, realignment of program/activity/service structures occurred, allowing us to make better funding decisions and track the proper results-based performance measures. All of these improvements will allow us to have better information with which to make budgeting decisions, and will ensure that the dollars allocated are meeting the desired results.

Detention Operations

Maricopa County has the third largest adult jail detention system in the United States. It is funded by a dedicated sales tax that was approved by the voters in 1998 and extended in 2002. Our juvenile detention facilities are also funded by Maricopa County through the dedicated jail sales tax. The detention fund, as it is known, has a \$35 million expenditure increase or 10.3% over last year. The largest increases were due to transfers to the capital improvement programs, major maintenance on various facilities, pay for performance for the adult and juvenile detention staff, and for performance pay and market-based salary adjustments for correctional health workers.

One of the focuses in the coming budget year is to lower the daily average inmate population and the average length of stay for inmates. Many strategies can be undertaken to lower the population including: streamlined court proceedings, avoiding unnecessary bookings, transferring sentenced inmates to the State Department of Corrections on a more timely basis, and generally lowering the crime rate and trends through education and other prevention programs. One of the programs recommended for funding in the 2006-07 budget should greatly assist with this goal. The SMI (Seriously Mentally Ill) Intervention Pilot Program will be managed by the Maricopa County Sheriff's Office. The program will work collaboratively with the City of Phoenix Police Department. Law enforcement calls for service involving the mentally ill will be handled in a response team approach, all the way through to the completion of the mental health assessments. This project will be aided by the recently-completed SMI-Data Link computer system initiated through the combined efforts of the Superior Court, the State Department of Health Services, and Maricopa County's Health Care Mandates Department. The goal is to divert the mentally ill from the jail setting to an appropriate treatment program. It is estimated that as much as 5-7% of the Maricopa County inmate population has a serious mental illness. Many of these individuals would be better served by receiving care outside of our jail setting because they are non-violent offenders.



Law Enforcement and Justice Issues

Law Enforcement and Justice issues make up 28.8% of our County budget; therefore, criminal justice issues drive a large part of our budget picture. The Board of Supervisors' strategic priority for criminal justice is to "ensure safe communities and a streamlined, integrated justice system". Our budget priorities also reflected these directives:

- 1) Reduce property and violent crime rates through evidence-based crime prevention strategies; and
- 2) Minimize jail overcrowding by reducing inmate average length of stay in the jail.

To this end, there is new funding in the budget for crime prevention grants. Maricopa County has set aside \$6.0 million to spend over the next three years on crime prevention. We want to partner with cities, towns and tribal governments to implant evidence-based programs that work with community non-profit agencies. This pilot grant program is meant to generate community interest in the development of crime prevention programs that will stem the flow of growth in the criminal justice system.

Another major initiative that we will be undertaking is to reduce methamphetamine usage in the community. This is the fastest growing substance abuse problem in the nation. In 2003, 28% of men and 42% of women booked into the Maricopa County Jail tested positive for meth, and surveys have shown that meth is involved in 65% of child abuse cases statewide. This criminal activity is responsible for increasing jail inmate populations, court workloads, and the safety of our community. There is \$2.5 million reserved in our budget to co-sponsor a media campaign and for prosecution related to the meth problem in our community. The media campaign is modeled after the Montana Meth initiative that is having great success in that state. In addition, funding is reserved to address a County Attorney initiative for Meth Prosecution (\$840,000) as well as Fraud and Identity Theft Prosecution (\$1,020,000), which is closely tied to meth use.

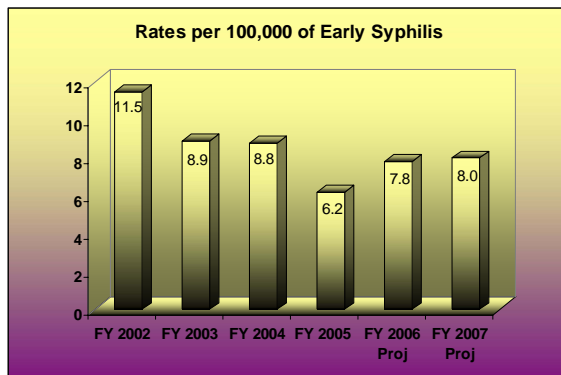
Caseloads in our Adult Probation Department continue on an upward trend. We anticipate having approximately 28,900 individuals on standard probation in fiscal year 2006-07. Of that group, about 65% are estimated to successfully complete probation, an increase over the current year of approximately 2.5%. This budget calls for adding staff and resources to standard probation at a cost of over \$512,000 to keep up with increasing caseloads and improve results. Other Adult Probation programs receiving funding include pre-trial initial appearance, fugitive apprehension, pre-sentence reporting, and field officer communications.

In the law enforcement arena, the Sheriff's Office is receiving funding for mobile data computing. This is a pilot project which will allow deputies to test state-of-the-art wireless technology in their patrol cars. There is also additional funding for the criminal investigations bureau. This division of the Sheriff's Office investigates sexual abuse, domestic violence and child abuse cases. Finally, the Sheriff's Office is also piloting an SMI intervention pilot program that is mentioned above in the Detention Operations section.

Court caseloads continue to climb with our population growth. In criminal court, we are also seeing an increase in the percentage of cases resolved within 180 days. In fiscal year 2005-06, approximately 85% of the cases will be resolved within the timelines set by the Supreme Court of Arizona. In fiscal year 2006-07, resolved cases should increase to 88%. There are a number of criminal court initiatives that are recommended for funding in the new fiscal year budget. These include two new criminal trial divisions, a critical calendar case flow support team, and a settlement conference division. In family court, caseloads are estimated to grow by 3%. Funding for family night court and continuation of family drug court has been recommended. Further enhancement of the new comprehensive mental health court is also recommended in this budget. Juvenile justice initiatives that will be expanded in this budget are juvenile court services, in-home intervention, and juvenile night court.

Public Health

Maricopa County is investing an increasing amount in Public Health. We are recommending doing so, however, based on empirical, historical and trend data and with accountability for results. The budget that is being forwarded is adding funding for testing and treatment of Tuberculosis (TB) and Sexually Transmitted Diseases (STD). Both of these programs are mandated public health issues that are best handled by local health departments. The spread of these diseases are of great concern. Last year, Maricopa County invested in new nurses and other medical staff for the TB program. Despite that



investment of \$770,240, new cases are still on the rise. New testing guidelines require a further addition of staff in this program. STDs are another public health concern that needs to be addressed. This budget recommends 13 new staff members to meet the estimated demand in this clinic. The funding of \$751,000 will allow testing and treatment of an additional 2,760 clients.

West Nile Virus continues to be an issue in this community. As is stated below in the Environmental Issues, this budget allocates level funding of \$3.2 million in appropriated fund balance for this important health issue. Due to the investment made in curbing this initiative last year, deaths from West Nile Virus dropped from 16 in 2004 to 4 in FY 2005.

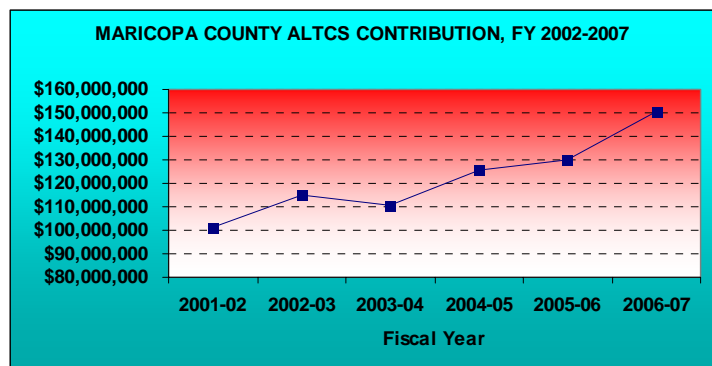
Environmental Issues

Air Quality in Maricopa County has received great attention in the past year as the County strives to improve our environment and clean up our air. Last fiscal year, a reorganization occurred that separated the Air Quality Division from the Environmental Services Department. This separation of duties transpired to ensure that more emphasis was placed on air quality issues in our region. In the past year, Maricopa County exceeded the national ambient standards for particulate matter (PM10) on many days. This component of air quality is difficult to control in Maricopa County's disturbed earth environment. The Air Quality Department has begun to address these concerns with an EPA-endorsed dust control program, which began in FY 2006. We have added over \$542,632 of General Fund monies and 10 staff to provide greater oversight and enforcement of dust generation in the Valley. Other concerns that the department is dealing with include recruitment and retention of qualified staff and reductions in both federal and state grants. Despite these setbacks, revenues are forecasted higher by \$2.3 million from the previous year, reflecting increased compliance and enforcement actions.

Environmental Services continues to focus efforts on providing a healthy and safe community for the residents of Maricopa County. In Fiscal Year 2006, the department, in conjunction with Public Health, continued its work to prevent the outbreak of West Nile Virus, and \$3.2 million has been allocated for this program in the 2006-07 budget. The Environmental Services Department also completed a workload analysis and staffing assessment during fiscal year 2005-06 and is recommending to the Board of Supervisors an updated fee schedule that dramatically increases many of the fees. The fees for many of the services provided by Environmental Services have not been revised for over a decade. Since the department has many important programs including: restaurant and food inspections, swimming pool plan reviews, licensing activities and vector control, revising these fees is imperative to providing high quality services for our residents.

Mandated Health Care

One of the Board of Supervisors' strategic goals is as follows: "Eliminate mandated fixed contributions to the State of Arizona in exchange for reductions in State funding of County programs with a goal of reducing such contributions to 15% or less of the total general fund expenditures by FY 2009-10." There are three large contributions that Maricopa County makes to State-managed programs: the Arizona Long-Term Care System (ALTCS), Arizona Health Care Cost



Containment System (AHCCCS), and the contribution for State mental health programs required by the *Arnold v. Sarn* court ruling. This year the contribution to the ALTCS program is estimated to increase by \$20.3 million to \$150.3 million. This is a \$15.6% increase over the 2005-06 contribution. The *Arnold v. Sarn* payment is estimated to increase by \$2.0 million to \$33.2 million, while the AHCCCS acute care contribution is flat at \$31.0 million. Together, these liabilities total \$214.5 million. This is an uncontrollable component of our operating budget that the County is working to reduce. Our strategic goal explains our position. We want a "good government" model that has the State responsible for State-managed programs, and the County responsible for County-managed programs. To that end, we proposed legislation that would help us achieve our strategic goal. House Bill 2819 would shift funding responsibility for juvenile probation to Maricopa County in exchange for a \$7.5 million reduction in the AHCCCS contribution. The bill is still moving through the Legislature.

The Health Care Mandates Department continues to address several of the most challenging fiscal issues facing Maricopa County. Primary among these is the defense of the so-called "Pre-AHCCCS tail litigation." This series of lawsuits initially involved over \$360 million in billed charges which hospitals alleged represented emergency health care services provided to indigent patients. Health Care Mandates has successfully settled approximately one-third of the potential liability at less than five percent of billed charges. The remaining \$240 million is the subject of a court-mandated "sampled" litigation process. The first trial under this process was conducted in April 2006, with a second scheduled to commence in November 2006. The court decisions in both trials will almost certainly be the subject of appeals by both parties.

Capital Improvement Program

Maricopa County began its Capital Improvement Program (CIP) in FY 1999-00. Our CIP plan is a modified "pay as you go" financial policy. We use this process for the general fund, detention fund, intergovernmental fund, and transportation fund. The County pays cash for most projects. Other projects use a combination of identified operational savings and lease reversions to pay the debt service on new facilities. Fiscal Year 2004 was the final year of the County's 1986 General Obligation (GO) bond debt. So in this budget year, the County does not have any GO bond debt, and we have very little long-term debt.

The debt that the County has is in the form of Certificates of Participation (COPs) or Lease Revenue Bonds. We pay for the debt service on these with either cash that has been set aside, or lease reversions and operational savings. Beginning in fiscal year 2004-05 and through the 2005-06 budget, we have begun to develop operational capacity that can be used for debt service on larger projects. This budget includes \$33.3 million for such an expense, which could purchase approximately \$400 million of capital improvements. This strategy will allow us to meet our capital needs without requesting a new GO bond for large infrastructure issues.

There are a number of major projects that were completed in fiscal year 2005-06. They include the Northeast Superior Court/Justice Court Expansion, Northwest Consolidated Justice Courts, Human Services Campus – Phase 1, New Administrative Services/ Forensic Science Center Parking, 4th Avenue Jail, Lower Buckeye Jail, and Durango Juvenile Detention/Treatment Facility. Continuing projects include a number of court projects and several other critical business items. They are listed below.

- Downtown Justice Center
- Santan Consolidated Justice Courts
- Southeast Justice Center
- Southwest Justice Center
- Human Services Campus – Phase 2
- Security Building Improvements
- Maricopa Regional Trails System
- McDowell Track Comfort Station
- Park Comfort Stations and Improvements
- Buckeye Hills Shooting Range
- Durango Animal Care and Control Facility
- Detention Facility Renovations

The Maricopa County's Department of Transportation employs an objective planning procedure for evaluating and ranking potential projects for inclusion in its five-year Transportation Improvement Program (TIP). This procedure includes using equally weighted, objective criteria to score and rank potential projects. The ranking criterion used by the department includes the following: safety, land use, current and future traffic volumes, cost/benefit analysis, and joint sponsorship. The process also utilizes bonus points for intelligent transportation systems, alternative modes and environmental enhancements. A separate ranking system exists for evaluating potential bridges, channel upgrades, bicycle, pedestrian, and other multi-modal improvements.

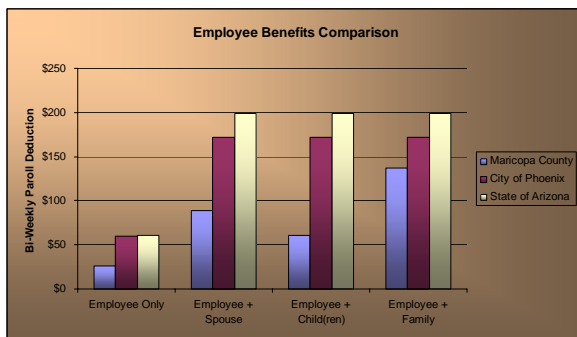
The primary source of funding for the TIP is State Shared Highway User Revenue Funds (HURF). The County must spend these funds only on transportation-related items. Other funds received that are applied to these projects include Federal Highway Administration (FHWA) funds, Maricopa Association of Governments funds, and Federal Emergency Management funds. We also participate in partnerships with other local jurisdictions, State agencies, the federal government, and private corporations. This budget recommends a five-year TIP of \$392.5 million. Of that total, \$119.2 is budgeted for the 2006-07 fiscal year.

Unfunded capital improvement needs are being tallied by the Facilities Management department and are closely monitored by the Office of Management and Budget. There are a number of items that must be addressed in the next several years. As was stated above, we are building operational capacity in the general fund and the detention fund to have a safeguard funding mechanism in the future. The projects that have been identified, but not yet funded, include: Criminal Court Tower, Central Court Remodel, Regional Superior Court Expansion, Parks Improvement Plan, and Sheriff's Administrative Building, just to name a few. In the coming years, these will be a high budget priority.

Employee Issues and Concerns

Over the past year, Maricopa County has invested significantly in its employees. The Compensation Division of the Office of Management and Budget (OMB) has reviewed salaries and job descriptions for over 5,200 positions within the last 18 months. This covers over 40% of all County employees. This process has promoted uniformity in our job descriptions and titles, corrected FLSA status, and rightsized salaries compared to the local job market. As a result, market-based salary increases have been implemented throughout the County at an annual cost of over \$60 million in all funds. Market studies will continue through the upcoming fiscal year. By the end of the 2006 calendar year, OMB anticipates that it will have studied all "targeted" market ranges (i.e., those with ten percent or greater turnover). There is additional funding reserved for market increases, as well as an average of 3.5% for continuation of our performance management program in each department's budget. Performance increases will be effective on July 3, 2006.

Maricopa County is also concerned about providing a sound benefit package. Our employee health and dental benefits are very competitive with both public and private sector employers. In addition, our programs promote healthy living and choices based on a family's needs. Our premiums and co-payments are reasonable and affordable. Our wellness programs are favorably received by the employees. The employee benefits satisfaction survey this year indicated that 97% of our employees are very satisfied or satisfied with their benefit package.



for continued participation in these programs.

Other employee issues that have been budgeted are retirement system increases. Maricopa County participates in the Arizona State Retirement System (ASRS) and its various programs. All of the plans will have employer-based increases in the coming fiscal year. Maricopa County will need to contribute an additional \$11.4 million in the 2006-07 proposed budget

Finally, Maricopa County is developing a number of additional employee- and management-based incentive programs. These include gain-sharing plans, a management incentive program, and a new employee retirement savings account program. These proposed programs will be sent to the Board of

Supervisors individually for consideration; funding has been reserved in this recommended budget for these innovative programs.

Conclusions

Our County's leadership is our key to success. The Board of Supervisors has demonstrated over and over a commitment to be innovative in our approach to solving community issues. This can be further illustrated with some of the new programs recommended in this budget including methamphetamine awareness campaigns, SMI intervention programs, and continued support of the Human Services Campus. Although we are investing wisely in new areas and tracking results, we are lowering the tax rate and using a "pay as you go" capital improvement plan. I want to thank the Board for their continued leadership, as well as the elected and appointed officials of Maricopa County. I recommend this budget with confidence that it will, through our Managing for Results initiative, provide cost effective results for our residents.

Sincerely,


David R. Smith
County Manager

On June 19, 2006, the Maricopa County Board of Supervisors adopted the FY 2006-07 Budget totaling \$2,125,832,525, with Expenditures of \$1,742,187,740 and Appropriated Beginning Fund Balance of \$383,644,785. This represents a \$2,515,871 reduction from the tentatively adopted budget of \$2,128,348,396.

On August 21, 2006, the Board of Supervisors approved the tax rate for FY 2006-07 of \$1.1794 per \$100 of net assessed value.

